REMARKS:

I. Status of the Claims

Claims 1-3 and 5-8 are pending in the application, with claims 9-20 cancelled. In the outstanding Office Action, claims 1-3 and 5-8 stand rejected and claims 21-26 have been withdrawn. By the present Amendment, claim 1 has been amended . No new matter has been added by virtue of the present amendments. Applicant respectfully submits that the amendments to claim 1 are merely clarifying, not narrowing. For example, the limitation previously recites entity providing proceeds to the lending institution, now recites the same subject matter from the perspective of the lending institution namely, "the lending institution receiving proceeds". Favorable reconsideration of the application is respectfully requested.

II. Rejections under 35 U.S.C. §103

Claims 1-3 and 5-8 stand rejected under 35 USC §103(a) as being unpatentable over US Patent No. 6,578,016 Trankina et. al. ("Trankina") in view of US Patent No. 7,107,241 Pinto ("Pinto"). Applicant respectfully traverses the rejection.

A. The Invention of Claim 1

The invention, as defined by claim 1, involves a lending institution transferring loans to an entity in return for proceeds received from the entity. The lending institution uses the proceeds to fund the loans. As explicitly defined in claim 1, the lending institution transfers the loans to an entity meeting a specific definition. The lending institution transfers the loans to an

"entity that secures insurance for the loans from insurers, . . . the entity having a second rating greater than the first rating [of the lending institution] or no rating . . . ." The lending institution assumes the risk of the first loss of the loans but, by transferring the loans to the other entity, transfers the risk of loss other than the first loss to the insurers.

Furthermore, claim 1 explicitly defines the amount of the proceeds received by the lending institution as "an amount greater than that which the lending institution could secure due to the second rating being greater than the first."

1. Patentable Weight Should be Given to the Claim Language

In rejecting independent claim 1, the Office Action states that no weight has been given to the characterization of the entity as an "entity that secures insurance for the loans from insurers, . . . the entity having a second rating greater than the first rating [of the lending institution] or no rating . . . ." Although the Office Action states that the entity securing insurance "does not further limit the step of transferring" and is merely non-functional descriptive material, Applicant respectfully submits that such a position is incorrect. The language is directly related to the transferring step because the language defines the entity to which the lending institution transfers the loans. The lending institution does not transfer the loans to any entity; the claim requires the transfer be to an entity meeting the criteria set forth in the body of the claim. Patentable weight should be given to the claim language.

Similarly, the Office Action gives no weight to the language defining the proceeds as "an amount greater than that which the lending institution could secure due to the second rating being greater than the first" because the examiner states that it is a use limitation. This is not a use limitation; it is an affirmative limitation defining the proceeds. The proceeds to be secured must be in an amount greater than that which the lending institution could secure itself due to the entity's second rating being greater than the lending institution's first rating (or, not rating if the lending institution has no rating). Patentable weight should be given to the claim language

B. Trankina And Pinto Fail To Teach Or Suggest The Claimed Invention

Trankina and Pinto, both alone and in combination, fail to teach or suggest the claimed invention.

In contrast to the claimed invention, which is directed to a method of funding a pool of loans and transferring risk of the first loss, Trankina is directed to a tax-advantaged transaction structure and a method where a first entity assigns disposable property it owns to a second entity in exchange for a contingent installment obligation. The second entity then creates the investment portfolio from the cash proceeds received from the sale to the third entity satisfaction of the contingent installment obligation. At the end of the contingent installment period, the portfolio is liquidated and a lump sum payment is made to the first entity. (Trankina col. 3, line 47 – col. 4, line 3).

An example of the type of property that the first entity may implement in the invention of Trankina is future lottery prize payments. In such an example, the first entity may be the winner of a $1,000,000 lottery and may be scheduled to receive $50,000 a year for 20 years. The first entity may assign the 20 payments of $50,000 to the second entity. In exchange, the first entity would receive a contingent installment obligation. The second entity then sells the right to receive the $50,000 payments for 20 years to a third entity. In exchange the third entity will pay the second entity $400,000. The second entity then invests the proceeds and the returns from the portfolio are used to make payments to the first entity.

More specifically, the Office Action cites the Trankina reference as disclosing the first entity funding the loans using the proceeds (Office Action p. 4 citing Trankina col. 1 line 60 – col. 3 line 44). However, Trankina does not disclose a lending institution (or any entity) funding loans using the proceeds from the transfer of loans to a secured entity, as recited in the claims. In Trankina, payments are bought and sold; no loan is funded, and no loan is transferred. Thus, Trankina fails to teach or suggest the claimed invention, and as discussed below, Pinto fails to cure this deficiency. As such, the claims are patentable.

Additionally, the Office Action (p.4) admits that Trankina does not teach the steps of claim 1 wherein the first entity is a lending institution; the property is a pool of loans; the first entity assumes the risk of the first loss by providing a first loss guaranty; the first loss being a percentage of the aggregate amount of the pool of loans; the second entity secures insurance for the loans from the insurers; and the entity having a second rating being greater than the first

rating or no rating. Trankina also does not teach the steps of claim 1 wherein the pool of loans has one or more insurers and is associated with a first rating or no rating, an aggregate amount and a first loss.

The Office Action cites Pinto to cure the deficiencies of Trankina; however, Pinto, both alone and in combination with Trankina, fails to teach or suggest the claimed invention. The Office Action relies on Pinto as disclosing a method wherein the first entity is the lending institution; first entity assuming risk of the first loss by providing a first loss guaranty, the first loss being a percentage of the aggregate amount of the pool of loans. Applicant respectfully submits that Pinto fails to teach or suggest the claimed "lending institution assuming risk of the first loss by providing a first loss financial guaranty, the first loss being a percentage of the aggregate amount of the pool of loans."

The Office Action relies on the lender in Pinto (referred to as the first entity) self-insuring against defects in title as teaching a "lending institution assuming the risk of the first loss by providing as first loss guarantee, the first loss being a percentage of the aggregate amount of the pool of loans." (Office Action p.4 (citing Pinto, col. 6, lines 50-63)). However, Pinto does not teach or suggest these claim limitations.

In Pinto, the lender is opting to self-insure and is obtaining reinsurance to back its own insurance by obtaining a third party guarantee. "[T]he lender can reinsure the risk of [its own] self-insurance by purchasing financial guarantee coverage which is not licensed title insurance,

but backs the self-insurance of the lender with a third party guarantee."(See Pinto col. 6, lines 50-62).

1. Pinto's Title Defect is not the Claimed First Loss

In claim 1, the pool of loans has an associated first loss "being a percentage of the aggregate amount of the pool of loans." The first loss is of the loans, and represents the first or initial liability from a default on the loan. Indeed, the present application confirms this meaning of first loss:

> As used herein, the term "first loss protection" refers to the reinsurer satisfying any payment obligations (up to a predetermined amount) caused by or as a result of borrower default, for example, the reinsurer may provide first loss reinsurance for losses on 2% of the total loan amount originated for each year until the loan matures. (See Specification, ¶ 29)

In contrast, the risk addressed in Pinto is the risk of title defects. This is a risk **not of the loan, but a risk of the collateral**, namely, the house securing the mortgage described in Pinto. Furthermore, title risks relates to "defects in title that occurred in the **past**" (Pinto, col. 6, lines 43-45), whereas the first loss is a loss of the loan based on default, which is **future** non-payment. These are very different risks. For example, in Pinto, even if the title is bad, and the borrower does not own the house, the lender can receive payments with no loss associated with the loan. The lender simply does not have the added protection of the collateral.

2. Pinto Fails to Teach or Suggest the Lender Providing a Guarantee to Assume the Risk of First Loss

Claim 1 recites the "lending institution assuming risk of the first loss by providing a first loss financial guaranty, the first loss being a percentage of the aggregate amount of the pool of loans." The lending institution **provides** a guaranty to assume the risk of first loss. In contrast, the lender in Pinto **obtains** a guaranty.

> [T]he lender can reinsure the risk of [its own] self-insurance by **purchasing financial guarantee coverage** which is not licensed title insurance, but backs the self-insurance of the lender with a third party guarantee.(Pinto col. 6, lines 50-62) (emphasis added).

The guarantee in Pinto is obtained, not provided, by the lender, reflecting the very different methodologies of Pinto and the claimed invention. This very different methodology is, in part, that the lender in Pinto directly obtains title insurance (either from an insurance company or by self-insuring against title defects), whereas in the claimed invention, the lender does not.

3. Pinto Fails to Teach or Suggest Funding a Pool of Loans

Additionally, Pinto is a method of online processing a single loan so as to close the loan in less than an hour. This is very different from the current invention where a lending institution facilitates the funding a **pool of loans** by providing reinsurance to a second entity. Thus, Pinto fails to teach or suggest a lending institution funding a pool of loans and assuming the risk of the first loss by providing a first loss financial guaranty, the first loss being a percentage of the aggregate amount of the pool of loans.

4. Combining Trankina and Pinto is Improper

Applicant respectfully submits combining Trankina and Pinto is improper. Pinto involves a method of processing an individual loan to an online customer in a time period on the order of one hour, whereas Trankina involves a method for a tax advantage structure for buying installment obligations, which does not even involve making a loan. Furthermore, the teaching of Pinto relied on – self-insuring against title defects – has no relationship to the teaching of Trankina so one skilled in the art would not look to combine teachings of the two references.

With regard to combining Trankina in Pinto, the Office Action argues:

> It would have been obvious to one of ordinary skill in the art to include the teachings of Pinto to the invention of Trankina. The combination of disclosures would have helped all parties in the transaction by streamlining the process. Office Action pg. 4 citing Pinto col. 4, lines 15-19.

This is wrong. First, the teaching of Pinto relied on is the self-insuring against title defects. This self-insurance has nothing to do with the motivation cited by the Office Action of "streamlining the process." Thus, there is no motivation to combine the teachings as done in the office action.

Second, the complexities of Trankina make it unsuitable for the streamlined loan processing of Pinto. For example, Trankina requires the first entity and the second entity to negotiate the terms of the disposable property in exchange for the contingent installment

obligation (See Trankina, col. 10, lines 58-61), which is not readily susceptible to the quick, online processing of Pinto. Accordingly, Applicant respectfully submits that Trankina and Pinto are not properly combined and, in any event, do not render the invention obvious.

5. Dependent Claims Are Not Obvious

The Office Action simply states that the features in claims 2-3 and 5-8 are old and well known in the art but cites to no references to support this statement. It also states it would have been obvious to one of ordinary skill in the art to include these features in the process of Trankina but, it cites to no prior art that would be combined with Trankina and Pinto that would make the dependent claims obvious. Applicants respectfully traverse. Moreover, although some of the elements, such as a bankruptcy remote entity (claim 6), recited in the dependent claims may be known in other contexts, such are not well known in the art to be combined with the elements of claim 1 as recited.

Accordingly, applicant respectfully submits that claim 1, as well as claims 2-8, which depend therefrom, are neither anticipated nor rendered obvious by Trankina in view of Pinto and are in condition for allowance.

CONCLUSION:

Applicants thus believe that the claims in the present application are in condition for allowance. Applicants respectfully request reconsideration of the present application in view of the foregoing remarks. If the Examiner has any questions or suggestions regarding this response or the application, she is invited to contact the undersigned at the telephone number provided below.

If any extension of time is required to have this paper entered and considered, such extension is hereby petitioned. Any additional fees or charges necessary in connection with the present application are hereby authorized to be charged to Deposit Account No. 19-4709.

Respectfully submitted,

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